

Presentation by
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to the
COMMERCIAL ACTIVITIES PANEL
Public Hearing
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Good morning Mr. Chairman and members of the Panel. Thank you for the opportunity to appear before you today. My name is CAPT Tom Schaefer. I am here today representing the Office of the Deputy Under Secretary of the Navy. The Deputy Under Secretary of the Navy has overall responsibility for policy direction and oversight of Department of the Navy's Strategic and Competitive Sourcing Program and reports directly to the Under Secretary of the Navy. With me at today's hearing are Mr. Frank Sowa, Strategic and Competitive Sourcing Program Manager from the Office of the Deputy Chief of Naval Operations for Logistics and Mr. Jerry Stark from the United States Marine Corps Office of Installation Reform. Mr. Sowa is the day-to-day manager of the Navy program and Mr. Stark is his counterpart for the Marine Corps. These two gentlemen have extensive experience with the operational and technical aspects of how the Department of the Navy has executed its Strategic and Competitive Sourcing Program. They are most familiar with the strengths and weaknesses of the current program as well as the legal and administrative framework within which these programs must operate.

The focus of today's hearing is on the current processes used to manage competition of commercial activities within the federal government. Therefore, my comments to the Panel will focus on the current Dept. of the Navy policies and strategies that govern how Mr. Sowa and Mr. Stark execute their respective programs. Following my brief comments Mr. Sowa and Mr. Stark will address the specifics of their respective programs and provide a summary status of program results to date.

The Department of the Navy is constrained by budgetary shortfalls, a continued high tempo of operations and a need to make large investments in modernization of equipment and re-capitalization. Since the 1997 Quadrennial Defense Review, the Department of the Navy has been pursuing innovative initiatives to reduce infrastructure and support costs. Saving generated by these actions is re-programmed to other higher priority needs. A key component of this Infrastructure Reform Initiative is the Competitive Sourcing Program using the process for competing commercial activities outlined in the OMB Circular A-76. Beginning in 1998 the Department of the Navy began pursuing a plan to generate saving for modernization and re-capitalization. The department set a projected savings goal of approximately \$5 billion for the period FY1997-2005.

In 1999 it became clear that competitive sourcing alone would not achieve the necessary savings, nor would it result in the most efficient Navy and Marine Corps infrastructure. It was determined at that time that a broader, more systematic approach, consistent with the intent of the Revised OMB A-76 Supplemental Handbook was needed to achieve our organizational goals. Within the Department of the Navy this approach is termed as Strategic Sourcing. Strategic Sourcing is our overarching program for implementing infrastructure reform to achieve savings, streamline operations and improve efficiencies at our bases and shore facilities.

At its core Strategic Sourcing begins by reviewing an entire organization's functions through an evaluative process to determine how related functions should best be organized, aligned or in some cases eliminated to achieve maximum operational efficiency and effectiveness. Tools in the Strategic Sourcing toolbox include A-76 Cost Comparison Studies, privatization, divestiture, sale of surplus assets, business process re-engineering, adopting private sector best business practices, consolidation, make or buy decisions and cooperative agreements with the other Services and government entities.

Over the last several years it has also been particularly challenging to integrate these efforts in a downsizing environment with other department-wide initiatives including completion of BRAC base closures, and the development of Enterprise Resource Planning (ERP) systems to link information flows and data bases across large and widely distributed business units such as the Naval Sea Systems Command and the Chief of Naval Education and Training.

As the Department of the Navy moves ahead with continued emphasis on infrastructure reform, future efforts will further refine the Strategic Sourcing approach with a greater emphasis on more integration and alignment with high impact investments such as ERP and improved program data collection and analysis through the implementation of more sophisticated accounting practices such as activity based costing/activity based management (ABC/M).

The Department of the Navy is confident that the Strategic Sourcing approach is the best long-term strategy because it is an approach that integrates a number of initiatives being pursued to re-engineer the way the department does business. Performing cost comparison studies of functions that are commercial in nature is but one method to consider outsourcing work for performance by private contractors. A-76 competitions are but one of several processes being utilized throughout the Department of the Navy to achieve the desired outcomes under this program. As outlined in the OMB A-76 Circular Revised Supplemental Handbook "the re-invention process must consider a wide range of options to make the Government more business-like." What is important about the Department of the Navy Strategic Sourcing approach is that it looks at whole functions to determine how best to restructure or realign the work that needs to be done, what can be eliminated and the best source, public or private to accomplish the work.

Mr. Frank Sowa, Strategic and Competitive Sourcing Program Manager will follow me for the Navy program. Thank you.